



Abstract

Growth Markets Equities are Not Solely a Commodities Story

In this edition of [Monthly Insights](#) we look at the relationship between commodities and equities, with a particular focus on the dynamics within Growth Markets. While we were tempted to change our plans and focus purely on the market turmoil in August, we decided against doing so.

Before the 2008 crisis, correlations of commodities with equities and fixed income tended to be relatively low on average. Thus, commodities were viewed as useful diversifiers for multi-asset portfolios. Since then, correlations with equities have risen sharply, and remain very high, particularly for energy and industrial metals and in Growth and Emerging Market countries. This development has undoubtedly reduced the diversification benefit of commodities in recent years.

From a longer-term perspective, structural factors will play an important role in moderating the link between commodities and equities. As Growth Markets develop further, the sector composition of their equity markets will likely change. As private consumption grows and economies rebalance, we expect a shift in the market capitalisation weights—away from energy and materials sectors to consumer sectors. We argue that by holding both commodities and Growth Markets equities, along with other assets such as private equity, investors can gain richer exposure to broad growth themes—particularly, the consumer story, which is where the real attractiveness of Growth Markets lies.

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